

MEMORANDUM

Date: May 2023
To: State of Delaware Office of the State Treasurer (OST)
From: CAPTRUST
Re: Deferred Compensation Plans: Voya's Review of Outside Providers

I. Background

For the State of Delaware deferred compensation program, the plans recordkeeper (Voya) partners with TD Ameritrade and Morningstar Investment Management to provide for self-directed brokerage account (SDBA) services and managed account advisory services, respectively. With the contractual agreement with Voya, OST agrees to use whichever providers Voya selects for these services for the length of the three-to-five year contract period, if the OST wishes to make the services available to the retirement plan participants. The below details the ongoing review conducted by Voya with respect to these providers.

II. Considerations

The SDBA is currently offered through TD Ameritrade, Inc. Voya monitors their call center's service statistics on a monthly basis, as compared with the service level agreement, and certifies them with Voya Institutional Trust Company. Although Voya's Product Management does not conduct physical due diligence visits, Voya speaks with TD Ameritrade's relationship team, Provider Services, on a daily basis. Additionally, Voya's day-to-day support team in Technical Services also speaks with them daily and reviews transfer files and daily reports. Voya also completes a third-party risk and security review annually with TD Ameritrade.

In November 2019, The Charles Schwab Corporation ("Schwab") and TD Ameritrade Holding Corporation ("TD Ameritrade") announced that they had entered into a definitive agreement for Schwab to acquire TD Ameritrade. Regulatory approvals were obtained and the transaction became final in October 2020. At this time, the platforms are being integrated and members will soon see the name Charles Schwab instead of TD Ameritrade going forward. Schwab and TD Ameritrade are collaborating with the goal of leveraging the strengths of both platforms.

Recent news related to the financial difficulties of some banks has led to inquiries about Schwab. It is important to understand that any concerns are related to the Schwab banking operations and not the brokerage account. Securities invested in the brokerage account are segregated from the general assets of the bank under the SEC's Customer Protection rule. Those assets are not available to general creditors of Schwab bank and are protected against claims. In addition, there is SIPC insurance available to protect in the cases of insolvency and fraud.

CAPTRUST recently analyzed the fees associated with the TD Ameritrade/Schwab brokerage account as compared with other leading brokerage account providers. The annual fee for the account fell right in the middle of the range of fees charged for such accounts. The transactions and other account associated fees were similarly situated in the middle or at the lower end of the fee spectrum.

For Morningstar, Voya maintains an oversight review process for the managed account offering, Retirement Manager. While Voya does not use a formal RFP process, it performs periodic benchmarking of the advisory services programs – participant experience, functionality, ability to integrate with and support the core retirement plan offering, methodology, pricing, and overall effectiveness in improving participant outcomes, against other programs available in the marketplace. Voya’s Advisory Service Product team has recurring meetings with Morningstar to ensure that the services are communicated, integrated and efficiently delivered as part of the overall plan services. Voya considers alternatives and is continually reviewing and assessing the current advisory services solutions, as well as those available in the marketplace.

In addition, Voya maintains an open dialogue with many of the top advisory services providers in order to maintain an understanding of the evolution of their services and ensure Voya’s offerings remain competitive. Voya works with its advisory services partners to achieve that goal and will make available other provider offerings to the extent that it determines there is an alternate solution with differentiated and superior services and outcomes.

Voya recently announced that it is enhancing the delivery of the managed account service. While participant allocations and recommendations will continue to be powered by Morningstar and its methodology, Voya will offer Investment Advisor Representatives to speak with participants in support of the managed account, and Voya will act as the fiduciary in providing this service. There is no additional charge for this enhancement.

CAPTRUST recently conducted an analysis of the fees associated with the Voya managed account as compared with other providers of managed account services. The fees charged fell slightly above the average among the managed account providers at the outset. As a user’s assets grow, the associated fee declines relative to other providers, such that at higher balances, the Voya managed account fee falls below the average of the other marketplace providers.

III. Conclusion

Voya’s ongoing evaluations of its outside providers help confirm that the plan participants have access to competitive offerings related to managed accounts and self-directed brokerage accounts. The associated fees are also in-line with peers and do not appear unreasonable for the services provided. Given the limited usage of these services by plan participants, the partnership with these providers is not likely to drive any decisions related to the recordkeeper selected for the plan. Nevertheless, it is important to confirm that the providers offered are of a quality to merit incorporation of the services into the plan, and both TD Ameritrade and Morningstar Investment Management and are leading providers in the market for their respective services.